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9
10 **IN THE UNITED STATES DISTRICT COURT**
11 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**

12 UNITED STATES OF AMERICA,

13 Plaintiff,

14 v.

15
16 OLYMPIA HEALTH CARE LLC,
ALECTO HEALTHCARE SERVICES,
17 LLC, MPT OF LOS ANGELES, L.P.,
MPT OF OLYMPIA, LLC, MPT
18 OPERATING PARTNERSHIP, L.P.,
MEDICAL PROPERTIES TRUST,
19 INC., SHERMAN/GRAYSON
HOSPITAL, LLC, ALECTO
20 HEALTHCARE SERVICES
SHERMAN, LLC, LAXMAN REDDY,
21 MATTHEW WILLIAMS, and
22 JEREMY REDIN,

23 Defendants.
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Case No. 2:23-cv-01783-ODW-PVC

**JOINT STATUS REPORT
CONCERNING CLAIMS AGAINST
DEFENDANTS OLYMPIA
HEALTH CARE LLC, ALECTO
HEALTHCARE SERVICES LLC,
SHERMAN/GRAYSON HOSPITAL,
LLC, ALECTO HEALTHCARE
SERVICES SHERMAN, LLC,
LAXMAN REDDY, MATTHEW
WILLIAMS, AND JEREMY REDIN**

1 Plaintiff United States of America (“Plaintiff”), Defendants Olympia Health
2 Care LLC, Alecto Healthcare Services Sherman, LLC, Laxman Reddy, Matthew
3 Williams, and Jeremy Redin (collectively the “Alecto Defendants”), by and
4 through their undersigned counsel, submit this 90-day joint status report as ordered
5 by the Court (Doc. No. 30) in light of the Alecto Defendants’ insurance coverage
6 dispute and the bankruptcy filings and consequent automatic stay of this litigation
7 against Defendants Sherman/Grayson Hospital, LLC (“Sherman Hospital”) and
8 Alecto Healthcare Services LLC (“Alecto”) (collectively, the “Bankrupt
9 Defendants”).

10 Background

11 1. On October 20, 2023, Plaintiff dismissed its claims, without prejudice,
12 against Defendants MPT of Los Angeles, L.P., MPT of Olympia, LLC, MPT
13 Operating Partnership, L.P., and Medical Properties Trust, Inc., (Doc. No. 35).

14 2. Plaintiff and the Alecto Defendants (collectively, the “Parties”) reported in
15 prior status reports to the Court, that a continued stay of the litigation was
16 warranted because of (1) the Bankrupt Defendants’ ongoing bankruptcy
17 proceedings, along with (2) the Alecto Defendants’ ongoing dispute with their
18 insurer. On November 13, 2024, the bankruptcy court (1) lifted the stay of
19 litigation as to Sherman Hospital and Alecto solely to allow the United States to
20 file an amended complaint in this Court subject to the terms and conditions set
21 forth in the stipulation and order, and (2) the Parties have been negotiating a
22 stipulation to allow Plaintiff to amend its complaint.

23 3. Regarding the bankruptcies:

24 a. As detailed in prior status reports, Plaintiff’s claims against the Alecto
25 Defendants are significantly impacted by the Alecto and Sherman Hospital
26 bankruptcies. The Alecto Defendants and the Bankrupt Defendants filed their
27 Answer to the Complaint on May 11, 2023, over a month before Alecto and
28 Sherman Hospital filed separate Chapter 11 bankruptcy petitions on June 16, 2023,

1 and June 23, 2023, respectively, and the two separate cases are still pending in the
2 United States Bankruptcy Court for the District of Delaware. While the same
3 judge presides over both bankruptcies, the cases have different U.S. trustees, and
4 Alecto filed as a Subchapter V debtor, while Sherman Hospital is a liquidating
5 Chapter 11 debtor. During its bankruptcy, the assets of Sherman Hospital were
6 sold pursuant to an order of the bankruptcy court, and the hospital remains in
7 operation, with a pending motion to settle claims and dismiss the bankruptcy case.
8 Alecto also continues to operate pursuant to its confirmed plan of reorganization,
9 as further described below.

10 b. As previously reported, Sherman Hospital's motion to approve a
11 settlement and dismissal of its Chapter 11 case – which was filed in October 2023
12 and to which multiple objections were filed – remains pending and the Parties
13 cannot predict when Sherman Hospital's bankruptcy will be completed. In the
14 Alecto bankruptcy, its Small Business Debtor's Plan of Reorganization (the
15 "Plan") became effective on April 19, 2024. Under the Plan Alecto will make
16 three years' worth of payments to creditors, to conclude potentially by mid-2027.
17 Based on the Plan, the United States expects that it will receive less than 10% of
18 the amount of its claims in this case.

19 c. In the Alecto bankruptcy, the United States and Alecto jointly filed a
20 stipulation on November 13, 2024, to lift the stay of litigation against Alecto solely
21 to allow the United States to amend the claims against it in this Court subject to the
22 terms and conditions set forth in the stipulation and order, which the bankruptcy
23 court approved by order on that same date, and which the Alecto Defendants did
24 not oppose.

25 d. In the Sherman Hospital bankruptcy, the United States and Sherman
26 Hospital jointly filed a stipulation on October 29, 2024, to lift the stay of litigation
27 against Sherman Hospital solely to allow the United States to amend the claims
28 against it in this Court subject to the terms and conditions set forth in the

1 stipulation and order, which the bankruptcy court approved by order on November
2 13, 2024, and which the Alecto Defendants did not oppose.

3 4. Regarding discovery in this case:

4 a. On June 23, 2023, Plaintiff filed the Parties' first stipulation to extend
5 time for the scheduling conference through September 18, 2023 (Doc. No. 22). On
6 June 26, 2023, the Court entered its Order granting the parties' stipulation for
7 continuance of the scheduling conference (Doc. No. 23). As a result, a scheduling
8 order has not been issued. Plaintiff continues to analyze and evaluate the impact of
9 the bankruptcies on its claims against the Alecto Defendants, including the effect
10 of the automatic stay on Plaintiff's ability to conduct discovery of information in
11 Alecto's custody and control, which necessarily hinders the ability to effectively
12 meet with the Parties' counsel, prepare a report to the court, and prepare for and
13 participate in a scheduling conference in court.

14 b. The Parties agreed that necessary discovery – most importantly from
15 Alecto – could not occur without permission from the bankruptcy court.
16 Specifically, although the individual defendants Laxman Reddy, Matt Williams
17 and Jeremy Redin may have access to Alecto's or Sherman Hospital's documents
18 for conducting business, the bankruptcy stay does not allow production of Alecto's
19 or Sherman Hospital's documents in this litigation before this Court. Additionally,
20 production of documents in the bankruptcies would require the Bankrupt
21 Defendants to incur substantial expense for attorneys and support staff. Those
22 expenses would also require approval by the bankruptcy court, which at this
23 moment cannot be ensured, and which would erode the bankruptcy estate assets of
24 Alecto and/or Sherman Hospital for a potential recovery by Plaintiff.

25 5. Regarding the insurance coverage issues, the Alecto Defendants (including
26 the Bankrupt Defendants) continue to be involved in ongoing conversations with
27 their insurance companies about potential insurance coverage for certain of
28 Plaintiff's claims. The Parties agree that, optimally, the insurance coverage issues

1 should be resolved before a Rule 16 conference is held or scheduling order is
2 issued. On December 5, 2022, the Alecto Defendants tendered the claims that the
3 United States later asserted in the Complaint against the individual defendants to
4 their primary and excess insurance carriers. With cooperation from the United
5 States, the Alecto Defendants provided a draft complaint to the primary insurance
6 company for its review and consideration on January 22, 2023. Despite follow-up
7 from the Alecto Defendants with their insurance companies, the primary insurance
8 company did not issue a coverage decision until June 15, 2023. The coverage
9 letter denied coverage for the claim under the primary policy and under an excess
10 policy issued by the primary insurance company; the other excess policy follows
11 form, and the excess carrier would have presumably followed that coverage
12 decision. The Alecto Defendants disagreed with the primary insurance company's
13 decision to deny coverage under any of the policies and contested the denial.

14 On October 2, 2023, the primary insurance company agreed to withdraw its
15 declination of coverage but continues to maintain a full reservation of rights
16 pending its ongoing investigation of the claim. Thus, coverage could still
17 ultimately be denied.

18 With the December 2023 filings of the \$29 million CMS proofs of claim in the
19 Alecto and Sherman Hospital bankruptcies, the United States informed counsel for
20 the Alecto Defendants that the additional \$17 million in claims may also be
21 asserted against the individual defendants and may thus be subject to insurance
22 coverage. The Alecto Defendants dispute the additional \$17 million in claims but
23 have provided notice of the additional \$17 million in claims to their insurance
24 carriers and those insurance carriers are reviewing the notice of additional claims
25 and the potential for coverage under applicable insurance policies.

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Developments Since the Parties' September 12, 2025, Status Report

6. Since the last joint status report in September, there have been no significant changes in the status of this case. Nearly half this period occurred during the lapse in federal appropriations that led to the government shutdown, and assigned counsel for the United States was furloughed. Also, the anticipated allowance of the government's claims in the related bankruptcy cases, summarized below, have not yet occurred. In the government's view, allowance of the claims in the bankruptcy are a prerequisite for its next steps toward resolving this case.

7. As described in the last joint status report, filed in September, Plaintiff has diligently examined ways to remove the obstacles to proceeding with this case. Plaintiff asserts that the automatic bankruptcy stays must be lifted to allow any amendments to the claims in this case. Defendants disagree with Plaintiff's assertion. Plaintiff has conferred with the Bankrupt Defendants regarding a possible resolution of Plaintiff's claims against the Bankrupt Defendants through their respective bankruptcy cases, as well as obtaining relief from the automatic bankruptcy stay in each case to permit amendment of the Complaint in this case. Plaintiff has discussed lift stay stipulations for this purpose with the Bankrupt Defendants and is prepared to file motions requesting relief from the automatic bankruptcy stay if such stipulations cannot be obtained in the near future. The Bankrupt Defendants reserve the right to object to any motion to lift the stay in the bankruptcy cases. If Plaintiff's approach proves feasible, and the bankruptcy stays are lifted, Plaintiff presently intends to then request a lift of the stay in this case and leave from this Court to file an amended complaint that would, in effect, dismiss all the Bankrupt Defendants and all non-bankrupt corporate affiliates from this action, leaving only the three individual Defendants. If such an amended complaint is accepted by the Court, the remaining parties will confer and propose a discovery schedule and/or otherwise confer about possible settlement.

1 8. The Bankrupt Defendants have discussed resolution of the Plaintiff's claims
2 in the bankruptcy case and do not believe lift stay stipulations or motions are
3 necessary because, consistent with the stipulations and orders already entered in
4 the Bankruptcy Cases, the Bankrupt Defendants believe Plaintiff can amend its
5 claims against the non-bankrupt defendants without asserting claims against the
6 Bankrupt Defendants and, if Plaintiff desires, can simply dismiss the Bankrupt
7 Defendants by way of stipulation. The Bankrupt Defendants reserve the right to
8 object to any motion to lift the stay in the bankruptcy cases. Plaintiff's
9 contemplated amendment would significantly narrow the claims to be adjudicated
10 here, while adding the \$17 million claim for new debts described above against the
11 remaining individual Defendants.

12 9. Notwithstanding the contemplated approach described above, Plaintiff
13 reserves the right to move to lift the Court's stay of this case and resume litigation
14 if Plaintiff, in its sole discretion, determines that resolution of the bankruptcies or
15 the insurance coverage dispute is no longer in the best interest of the United States.
16 Defendants reserve the right to object to any request to lift the stay in this case as
17 well as to any proposed amendment to the Complaint in this case.

18 10. This joint status report is made in good faith and not for the purpose of delay
19 or for any other improper purpose.

20 Dated: December 11, 2025

UNITED STATES OF AMERICA

21 By: /s/ Michael J. Quinn

22 Michael J. Quinn
23 Senior Litigation Counsel
24 United States Department of Justice
25 Attorneys for Plaintiff United States
26 of America
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1 Dated: September 12, 2025

MICHAEL BEST & FRIEDRICH LLP
By: /s/ Evan S. Strassberg
(CA Bar No. 219336)

3 Attorneys for Defendants Olympja
4 Health Care LLC, Alecto Healthcare
5 Services, LLC, Sherman/Grayson
6 Hospital, LLC, Alecto Healthcare
7 Services Sherman, LLC, Laxman
8 Reddy, Matthew Williams, and
9 Jeremy Redin

8 **ATTESTATION**

9 In accord with Local Civil Rule 5-4.3.4(a)(2)(i), I attest that all other
10 signatories listed, and on whose behalf this filing is submitted, concur in the
11 filing's content and have authorized the filing.

12
13 Dated: September 12, 2025

UNITED STATES OF AMERICA

14 By: /s/ Michael J. Quinn
15 Michael J. Quinn
16 Senior Litigation Counsel
17 United States Department of Justice
18 Attorneys for Plaintiff United States
19 of America
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